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Arizona Corporation Commission

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MAR 05 2007

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IN THE MATTER OF THE APPLICATION
OF UNS ELECTRIC, INC. AND UNS GAS, INC.
FOR A FINANCING ORDER AUTHORIZING
VARIOUS FINANCING TRANSACTIONS

) DOCKET NOS. E-04204A-06-0493
) G-04204A-06-0493

**EXCEPTIONS TO
RECOMMENDED OPINION AND
ORDER**

UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS Gas") generally support the Administrative Law Judge's Recommended Order dated February 23, 2007 ("Recommended Order"), with the exceptions outlined below. UNS Electric and UNS Gas hereby request the following revisions to the Recommended Order:

1. Revise the first two paragraphs on page 8 to read:

IT IS THEREFORE ORDERED that UNS Electric, Inc. is hereby authorized to borrow up to \$100 million of long-term debt for a term not to exceed twenty years, for the purposes set forth in the application and set forth herein, provided that UNS Electric, Inc. shall not issue such debt under that authority granted herein if such issuance would cause its equity to be less than 30 percent of its total capitalization at the time of the issuance.

IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby authorized to increase the amount of their joint Revolving Credit Facility to \$60 million and to extend the maturity date of such Revolving Credit Facility to August 11, 2011.

1 2. Delete the fourth paragraph on page 8.

2 The rationale for the exceptions and proposed amendments are as follows:

3 1. Delete of maximum interest rate on the new UNS Electric long-term debt.

4 Although UNS Electric fully expects to be able to obtain new long-term financing at a rate
5 less than the current rate of 7.61%, there is no assurance of what the market and credit conditions
6 will be at the time that UNS Electric issues new debt. A portion of the new debt will be used to
7 refinance \$60 million of existing long-term debt which matures on August 11, 2008. UNS Electric
8 must refinance that debt by the maturity date, and if for some reason the available rate of interest at
9 that time was higher than 7.61%, this restriction in the Commission Order would prevent UNS
10 Electric from refinancing and cause it to be in default.

11 2. Attach the 30% minimum equity restriction to the issuance of UNS Electric long-term
12 debt only and not to borrowings under the \$60 million Revolving Credit Facility.

13 UNS Electric understands the Commission's concern about adding too much debt at UNS
14 Electric and shares its desire for UNS Electric to maintain a balanced capital structure of debt and
15 equity. Therefore UNS Electric agrees that a condition to issuing the new long-term debt (up to \$100
16 million) should be that UNS Electric maintain a ratio of total equity to total capital of at least 30%
17 after taking into account the issuance of such debt.

18 UNS Electric and UNS Gas respectfully submit, however, that this restriction not be tied to
19 borrowings under their Revolving Credit Facility. This credit facility is governed by a credit
20 agreement which contains certain representations and warranties which the companies must meet
21 each time they request a borrowing from the lenders, including a representation that the execution,
22 delivery and performance of the credit agreement will not violate any governmental order. If this
23 new condition is imposed by the Commission, UNS Electric and UNS Gas would not be able to
24 obtain new short-term borrowings or extend existing borrowings under the facility until such time
25 they obtained an amendment to the Credit Agreement, including such condition as a new condition
26 to borrow. This could adversely affect UNS Electric's and UNS Gas' ability to meet short-term
27 liquidity requirements.

1 The request to increase the Revolving Credit Facility from \$40 million to \$60 million, and at
2 the same time increase the maximum amount that either UNS Electric or UNS Gas could borrow at
3 one time from \$30 million to \$45 million does not have a significant negative impact on the equity to
4 capital ratio at either UNS Electric or UNS Gas. Therefore, we request that this condition not apply
5 to borrowings under the Revolving Credit Facility and only to UNS Electric at the time it issues its
6 new long-term debt.

7 To provide further comfort to the Commission on this matter, it should be noted that
8 UniSource Energy Corporation ("UniSource Energy") provided \$10 million in equity contribution to
9 UNS Electric in 2006, which contributed to improved equity to capital ratios compared to those
10 provided in the pro forma presented by Commission Staff using financial statement data as of
11 December 31, 2005. Additionally, UniSource Energy intends to provide an additional equity
12 contribution to UNS Electric of \$10 million in the second quarter of 2007, so that it may maintain a
13 balanced capital structure of debt and equity.

- 14 3. Clearly state that UNS Electric and UNS Gas are authorized to extend the maturity
15 date of their Revolving Credit Facility to August 11, 2011.

16 UNS Electric and UNS Gas request that this explicit statement be added at the end of the
17 second paragraph in the Recommended Order on page 8. This will make it clear for their lenders
18 that the extension has been authorized by the Commission.

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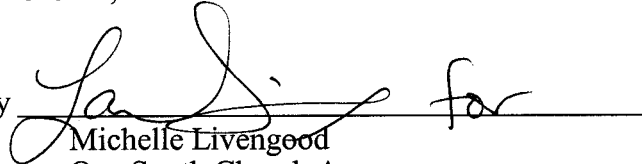
24 ...

25 ...

1 RESPECTFULLY SUBMITTED this 5th day of March 2007.

2 UNS ELECTRIC, INC.
3 UNS GAS, INC.

4 By



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13 Original and 15 copies of the foregoing
14 filed this 5th day of March 2007, with:

15 Docket Control
16 ARIZONA CORPORATION COMMISSION
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18 Phoenix, Arizona 85007

19 Copy of the foregoing hand-delivered
20 this 5th day of March, 2007, to:

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